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Fax (201) 801-0441

September 9, 1993

Mr. Koki Yodogawa
Manager
Management Systems Planning Department
Nomura Research Institute, Ltd.
Tokyo

Via fax: 011-81-45-336-8761

Dear Mr. Yodogawa:

Attached is the draft report on "Business Process Reengineering Methodologies of Seven Major Vendors". This draft report does not include copies of vendor materials previously provided to Nomura at the progress review meeting in New York City on August 26 (in order to reduce the amount of material to be faxed).

One point that we wish to bring to your attention is the EDS presentation materials contained in the Appendix of this draft:

- The presentation and associated materials are excellent examples of the key tangible sales materials used in the BPR sales cycle. (The intangible materials, that is, the capabilities of the project team, are even more important sales determinants.)
- The engagement letter (or proposal) is generally more of a formality that summarizes what has already been agreed during face-to-face meetings.

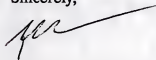
Please review this draft and return your questions and comments. Depending on the number of questions and their importance, we can either

- Respond to your questions immediately and then incorporate the additional information into the final report; or,
- Incorporate the additional information directly into the final report.

We can prepare the final report within seven working days after receiving your last questions. The final report will consolidate all materials, including those supplied to you at the meeting in New York City, those delivered with the draft report and any others received between the time of the draft report and final report.

We at INPUT have found this project very stimulating and we believe that we have uncovered a great deal of important information not generally available.

Sincerely,



Thomas O'Flaherty
Vice President



09/09/93

15:48

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INPUT

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*** ACTIVITY REPORT ***

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PROPOSAL

**ASSESSING THE BUSINESS PROCESS RE-ENGINEERING
METHODOLOGIES OF MAJOR VENDORS**

Submitted to

Nomura Research Institute

July 23, 1993

Submitted by

INPUT

The Atrium at Glenpointe
400 Frank W. Burr Boulevard
Teaneck, New Jersey 07666

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ASSESSING THE BUSINESS PROCESS RE-ENGINEERING METHODOLOGIES OF MAJOR VENDORS

I. Background and INPUT's Understanding

Nomura Research Institute (NRI) wishes to understand the business process re-engineering (BPR) methodologies and business practices of the major suppliers of BPR services. INPUT has been invited to submit this proposal scoping the work and describing how INPUT will conduct the work.

II. Scope

The following questions should be answered during this research:

A. BPR Organization

- How are teams or organizational units organized? For example, by vertical market, by application, by function, combinations (matrixed)?
- What is the number of professionals and distribution by specialties?
- What type of partnering with other vendors is engaged in?

B. Business Size [estimates may be necessary in some cases]

- What are annual revenues and contract values for the past three years? [For some vendors it may be difficult to separate BPR from other associated activities.]
- What have been the number of contracts and the range of contract values?
- What revenues and contract awards are expected over the next three years? If a significant change is expected, why?



C. Services Provided

- What is the menu (or list) of BPR services provided? (Including brochures or descriptive material as available.) What changes are planned or possible?
- What is the relation of BPR and other services provided by the vendor? Examples: Management consulting, SI.
- To what extent does a vendor commit to achieving particular results as a result of a BPR project. (Example: reduce distribution costs for X product by 10%)
- What is the vendor's role in the different steps of the BPR process?
- How is the BPR vendor (or BPR section or unit) involved in subsequent activities after BPR? (Examples: Organizational changes, personnel changes, product changes, system requirement studies, SI projects)
- What type or types of contracts are used?

D. Key Components and Differentiators of a Vendor's BPR Activities

- Methodology
- Application experience
- Vertical market experience
- Data Base (Examples: experience, practices, benchmarks)
- Business practice templates
- Information technology (Examples: Redesign tools, Prototyping, RAD, JAD)

E. Methodologies

- [Characteristics or uniqueness of a vendor's methodology -- in 4, above]
- Description of procedural steps, methods and measurements used.
- Theoretical basis for methodology
- General outline of manual or tools used to support the methodology



F. Major Awards (Examples)

- Name of client, industry, application [Note: vendors will often suppress the precise name of a client associated with a particular engagement for competitive reasons]
- Project characteristics
- Special accomplishments or benefits
- Project duration and size
- Client and vendor roles

G. Strategies and Perspective on the BPR Business

- Competitive environment; growth outlook
- Development of additional capabilities
- Target markets and offerings
- Relation of BPR to overall business offerings



III. Conduct of the Work

This information will be collected principally by means of primary research, using as a foundation INPUT's other work in this area. The interviews will be a combination of telephone and face-to-face interviews. Because of the wide range of information desired (financial, market and technical information, INPUT expects to conduct multiple interviews within many of these firms. INPUT will develop information on at least six of the following seven firms: Hammer & Co., CSC Index, McKinsey & Co., Bain, Andersen Consulting, EDS and Perot Systems.

INPUT will develop an interview guide which will be reviewed by NRI.

INPUT will prepare a written report covering all items listed in "Scope". INPUT will supply follow-up information for 30 days after the report has been delivered to NRI.

IV. Schedule

The project will follow the schedule below:

<u>Week</u>	<u>Activities</u>
1	INPUT drafts interview guide for review by NRI
2-5	INPUT conducts interviews
6	Information analyzed and report drafted
7	Report delivered to NRI

INPUT can begin work within two weeks of authorization.



V. Fee

The fee for this study is \$35,000, with one-half (\$17,500) payable upon contract authorization and the remainder payable upon submission of the report. The fee includes INPUT's out-of-pocket expenses.

NRI may authorize this project by signing the blocks below.

Authorized by Nomura Research Institute

Name

Title

Date



INPUT®

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FAX TRANSMITTAL FORM

Date: 7/23
To: Name: Tetsuo Imai
Tel./Location: _____
Co.: _____
Fax No: _____
From: Tom O'Flaherty
Subject: NRI - BPR

Confidential: Y/N
Urgent: Y/N

Page: 1 of 7

File: Chron
Contact
Other: .

• Thank for the advice on the fee -
I took it

• I added the additional bullet under
"Services Provided"

Good luck!



**Assessment of the
Business Process Re-engineering
Methodologies
of Seven Major Consulting Firms**

**Final Report
Prepared by INPUT
for
Nomura Research Institute**

October 11, 1993



a Quickfax

To: VP Tom O'Flaherty, - INPUT NJ (TOF)

From: Steve Korn, INPUT

Fax Number: 703.847.6872

Date: Tue, Oct 12, 1993 • 2:08 PM

Transmitting (46) pages, including cover sheet.

If there is difficulty with this transmission, please call: 703.847.6870



Background and Introduction

INPUT was retained by Nomura Research Institute, Tokyo, to help it to understand the business process re-engineering (BPR) methodologies and business practices of at least six of the following seven providers of BPR consulting services:

- o Andersen Consulting
- o Bain & Company
- o CSC Index
- o EDS Consulting
- o Hammer & Company
- o McKinsey & Company
- o Perot Systems.

The organizations studied were selected by Nomura. Other major organizations offering BPR consulting services, including Coopers & Lybrand, Deloitte and Touche, Ernst & Young, Gemini Consulting, and IBM, were not included in this study.

INPUT conducted primary interviews with principals and associates of each of the firms during August and September 1993. INPUT conducted multiple interviews with each firm in order to cover all points as well as to verify information. INPUT did not disclose Nomura's identity at any time.

The interviewees were told that INPUT was seeking only public information. Most volunteered more information to INPUT than is generally available in the public domain. INPUT also augmented the interviews with interviews with selected clients, and with information already in its possession and from previous executive interviews with Andersen Consulting, CSC Index, EDS, and Perot Systems.



On August 27, 1993, INPUT met with Nomura Research for an interim progress report. At that time, INPUT turned over source material to Nomura that was collected through August 26, 1993. Nomura verbally authorized INPUT to stop collecting information on the consultants' clients' names, and re-directed INPUT to concentrate on issues of greater importance to Nomura: Andersen Consulting's Change Management practice, the consultants use of software tools, consultants proposal content and engagement letter form, EDS and Perot System's migration into management consulting, any evidence that traditional management consultants are venturing into IT, and finally how the management consultants justify their (large) fees.

On September 9, 1993, INPUT prepared the final report (draft). Nomura Research responded with related questions and asked that INPUT structure its findings to coincide with the contract. This final report answers those questions wherever possible and contains INPUT's findings in the structure requested by Nomura Research.

The reminder of this report is organized as follows:

- o Executive Summary and Matrixes
- o Key Findings From Research
- o BPR Consultant Profiles
- o Other BPR Consultants
- o Appendixes.



I Executive Summary and Matrixes

At least five of the seven consulting firms contacted provide BPR consulting services, ranging from strategy and process redesign to IT development and implementation (refer to Exhibit I-1). A few of the firms also provide change management services which help clients implement the radical changes associated with process redesign. Two of the firms provide outsourcing which, while not normally associated with BPR consulting services, is an allied area.

Only Hammer and Company is not a BPR consulting firm in the generally accepted sense. Perot Systems claims to offer BPR consulting services, but in fact does not when compared to Andersen, CSC Index and EDS.

However, Hammer is highly influential as a thought leader. Hammer concentrates solely on educational seminars and one-on-one, private briefings for corporate executives. INPUT has learned that EDS is now Hammer's primary source of executive briefing leads, replacing the role CSC Index had played for Hammer. A public announcement is pending concerning EDS and Hammer, but no specific details are available at this time.

Andersen Consulting and EDS are the two largest BPR consulting firms. However, Andersen and CSC Index are perceived as the two present leaders of BPR consulting, in large part because of advertising, effective press relations, and an earlier focus on BPR. McKinsey is also a significant provider of BPR consulting, though it lacks an IT implementation capability.

INPUT anticipates that EDS will achieve leadership parity in terms of image and reputation in 12-to-24 months when EDS's investments in consulting staff and proprietary data bases pay off, and its BPR projects now underway become more widely recognized. EDS's little-known strategy to risk part of its fee in order to win more commercial BPR engagements is a clear market differentiator, and will accelerate the market acceptance of EDS in BPR. While "contracting-for-value" type contracts are new to the

BPR Consulting Firms Services Summary—Exhibit I-1
(see attached)



consulting pie will become smaller and less relevant to more clients as mainstream consulting work becomes increasingly IT intensive and clients expect IT implementation experience. So while Bain and McKinsey play a preeminent role in strategy consulting, they remain high-value, high-price consultants. One McKinsey principal summed up the strategy consultants' mindset: "We're capable of IT (work), but it's not the best use of our time." INPUT's conclusions about the BPR market would of course be disputed by Bain and McKinsey, but the rapid growth of Andersen, EDS and CSC substantiate INPUT's view.

Perot Systems is similar to EDS only without management consulting and process re-engineering skills. INPUT could not identify process re-engineering specialists similar to Andersen Consulting, CSC Index or EDS consultants. Perot Systems specializes in IT and SI, and provides systems consulting on the front end of an engagement in order to secure the IT work. INPUT would not categorize this work as BPR consulting even though work flow processes are re-designed during system implementation.

Perot Systems attempts to convince prospective clients that its systems analysis work on the front end of a SI project is sufficient to meet the client's re-engineering needs. But Perot Systems, for all practical purposes, is not a major BPR consulting services firm. That could change if it decides that a growing share of its potential commercial IT work is off limits because it didn't participate in the process redesign work that generally precedes IT design and implementation



BPR consulting marketplace, EDS is experienced making money from such contracts in its state and local government work.

Andersen, CSC and EDS have aggressively adapted their consulting practices to capitalize on the BPR phenomenon sweeping the U.S. and Europe. For example, these firms have trained most of their staff in BPR methods and techniques, begun to invest in best-practices data bases and software tools, used marketing and press relations to promote their BPR capabilities, and added significantly more professional staff to handle the increased workload.

EDS is the leader in best-practices data bases in part because it has been assisting GM to implement statistical process control (SPC) and EDS used data base technology to compare manufacturing quality across GM manufacturing sites worldwide. This means that EDS has accumulated its experience over many years; EDS did not just suddenly discover the power of best practices data bases, as perhaps EDS's competitors are now starting to realize. Bain is also a leader in best practices data bases in one specific area. It excels in tracking the costs and benefits of retaining customer loyalty over time; it has no other best practices data bases.

In contrast, McKinsey & Co. and Bain & Co. have not materially altered their consulting practices. Instead, they have merely re-labeled a portion of their renowned strategy work as "re-engineering." When their strategy work involves radical change or new work processes, then the re-engineering label is applied for marketing purposes even if the substance of their work was the same as before BPR. That's both an advantage ("we've been doing it for years") and a liability (what's new?). Neither firm has ventured into the IT portion of BPR consulting services and INPUT does not expect this to change.

Yet, according to David E. Clinkenbeard in *Consultants News*, consultants are being held to providing a seamless product and to being measured by the actual gains achieved by the client...¹ Consequently, Bain and McKinsey will continue to grow and remain important to their clients for niche corporate strategy consulting, but their percent share of the total

¹ April 1993.



II. Key Findings From Research

- o None of the consulting firms have a BPR consulting practice per se.
 - Today, BPR is considered a core competency, like financial analysis and market segmentation skills, rather than a vertical market such as banking or retailing.
 - The consulting firms continue to organize around vertical markets, and BPR hasn't changed that. There are some functional specialties such as change management services and distribution and IT, but industry specialization remains the primary organizational structure.
 - BPR is a generic title that can encompass many activities including the supply of hardware and software. The effect is that revenue reports by, say, EDS will have to be interpreted differently than a revenue estimate of McKinsey's BPR work.
 - Among the BPR consultants, there is general agreement that BPR is associated with helping clients to conceive and implement (radical/fundamental) business change. IT may not necessarily be part of every BPR engagement.
- o Partnering with other consulting firms for IT, change management, or strategy consulting is still rather rare. The consulting business remains largely made up of entrepreneurial partners that manage their own industry consultancies, without help from the outside.
 - CSC Index pulls in its sister organization, CSC Partners, for IT implementation.
 - EDS Consulting partners with EDS Systems Integration.
 - EDS and Andersen have not historically provided front-end strategy consulting, but both are now building up that capability internally, rather than partner with established management consultants.



- Generally, the consulting firms that do not possess IT development and implementation skills look to their clients to select a suitable IT firm, as opposed to bringing in an "alliance partner." McKinsey is *not* directing SI work to any particular firms.
- There is no evidence of teaming up with traditional human resources consulting firms, such as the Hay Group, for change management services. Andersen has its Change Management practice, EDS its Human Performance practice, and CSC its Beacon practice.
- o Business size information is not publicly available.
 - Reliable BPR revenue estimates are difficult to obtain. Interpreting the revenue estimates INPUT has obtained is inherently inexact--each firm's definition of BPR varies widely and no one executive-in-charge or business unit "counts" BPR revenue because BPR isn't a practice area.
 - Such difficulties notwithstanding, INPUT used a variety of sources and staff estimates of consultants applied to BPR engagements to rank order and estimate revenue from BPR consulting and systems integration (see Exhibit II-1)
 - Over the next three years, Andersen, EDS and CSC will grow the fastest among the group because of the breadth of BPR consulting services, reputation, marketing acumen, and IT capabilities. Among these three, EDS will grow the fastest over the next three years because of staff additions, use of proprietary best-practices data bases, and willingness to risk part of its fee to win new work. Also noteworthy is EDS's recent openness which reflects a recent business decision that increased openness is "good business"--something Andersen and CSC Index decided years ago. Consequently, INPUT expects that EDS's BPR successes will become more widely recognized.



1993 Revenue Estimate—Exhibit II-1
(see attached)



- o Among all the firms, Andersen provides the greatest breadth of BPR services--core BPR services including process redesign and IT development plus front-end strategy work and back-end change management services.
- CSC and EDS are a close second to Andersen in terms of breadth of BPR services offered, though they offer fewer change management services.
- While Andersen is first in breadth of BPR consulting services, EDS is the leader in terms of its proprietary best-practices data bases, right to access other proprietary best-practices data bases, and IT implementation capabilities. And EDS is building up its Human Performance Services practice which is a more specialized version of Anderson Change Management practice. Andersen will assist with training staff to acquire new functional skills, preparing employee communication (why the change is necessary), devising incentive compensation (modify behavior), reorganizing staff (generally from vertical to horizontal), and monitoring progress versus plan. EDS's comparable change management service is generally limited to training staff to acquire new *functional* skills. The breadth of Andersen Consulting's change management services are a major competitive advantage because implementation skills are becoming increasingly important to clients.
- EDS is the only company willing to put its fee at risk, thus financially committing itself to achieve a promised result. The other firms are adamant that EDS's "contracting for value" strategy is *not* in the client's best interest because of potential conflicts of interest. While EDS fee-at-risk contracts are today only a small percentage (about 5 percent) of all contracts, its mere existence will complicate contract negotiations for the other consultants.
- Andersen is furthest along in offering change management services, a generally acknowledged weak area for all the firms.



- All the firms use an "engagement letter" as the legal basis to be paid. Even though the engagement letter may potentially span a multi-year BPR project, INPUT has learned that clients buy consulting services in logical phases, e.g., problem analysis, process redesign, etc. This is the way clients control the BPR consultant. As one principal said, "There is a high degree of mutual trust required...but it's not blind trust."
- Andersen, CSC, EDS and McKinsey made the point that they define the work to be done such that measurable results (cost reduction, quality improvement, time compression, and/or revenue increase) are achieved quickly, ideally within six months. The effect is that the client has positive reinforcement before "client remorse" over the consulting fee sets in, and therefore authorizes the consultant to proceed.
- o Although sample engagement letters were not available from any of the firms, INPUT confirmed that an engagement letter is typically 5-to-6 pages and includes client objectives, scope of work, methodologies, timing, terms and conditions, and fees.
- o Generally, the consultants' engagement letters are not very detailed considering the fees involved and therefore are definitely not the primary sales vehicle or means of convincing the client to buy the consultant's services.
- The "buying decision" is influenced by a combination of factors including the consultant's overall reputation which precedes it and the confidence built up by meeting with the partner-in-charge and his/her associates. The partner-in-charge both sells as well as directs the engagement; there are no sales managers or account executives that make the sale and move on. Consultants call this "you eat what you kill."
- INPUT obtained an example of the key sales presentation used by Andersen Consulting, CSC Partners, and EDS (see appendix). (Andersen Consulting and CSC Partners are new since the draft final report). Because EDS is relatively new, reputation wise, to



front-end strategy consulting, the EDS example is more comprehensive than would be used by, say, Bain or McKinsey, both of which depend more on reputation.

- o All of the firms provide project management services--advising the client on implementation and tracking results versus plan. Project management services are different than change management services. The former is more project oversight whereas change management consists of direct involvement in compensation design, employee communication, organizational design, staff re-training, and the like.
- o Change management services are a recent addition to the consultants' offering, whereas project management is a skill that has always been present. INPUT has not learned of any major acquisition of a change management consulting firm so we believe that the additional skills were "home grown," acquired through selective hiring of key staff.
- o The key difference in BPR methodology among the firms is their perspective of the role of technology in general and IT in particular. Each firm's view is shaped by its respective strength:
 - Bain and McKinsey view IT selection and implementation as work steps that logically follow from process redesign--that is, process redesign drives IT. Both view the IT-oriented consulting firms such as Andersen, EDS and Perot as opportunists, successfully exploiting the BPR rush as a way to sell more projects, software and programming services than would otherwise be possible.
 - In contrast, Andersen and CSC and especially EDS view IT as a key "enabler"--redefining for the client what is possible. IT strategy is at least co-equal with business strategy.
 - Perot doesn't have a BPR methodology.
- o All the firms make a study of best practices during the course of a BPR engagement. However, CSC and McKinsey make the point that a



strategy that only matches best practices means that the client is at best going to achieve competitive parity.

- EDS has invested the most in best-practices data bases, which reflects its experience in manufacturing and statistical process control (SPC).
- EDS has retained MIT Sloan Professor Hax to develop the theory behind EDS's BPR methodology which considers IT strategy before business strategy. No additional information on Prof. Hax is available at this time.
- Bain's theoretical work in customer retention was done in collaboration with Harvard Business School Professor Earl Sasser.

Interesting, the two firms with the most extensive best-practices data bases have also sought the most outside help to create a theoretical basis for using the data. INPUT believes that the competitors of Bain and EDS are largely unaware of the extent that these two firms are investing in proprietary data bases. When confronted about the existence of such data bases, the competition seemed unconcerned.

- o Software re-engineering tools do not yet play a major role in BPR consulting. BPR consulting remains an expensive, labor-intensive business, unaided by software tools. Change management tool software now commonplace for complex system development such as client/server, are available from Softool, Legent and Intersolv, but have not to INPUT's knowledge been applied to BPR consulting projects. INPUT has learned that Price Waterhouse and Booz, Allen & Hamilton are creating such tool software. (INPUT makes a distinction between software re-engineering tools, which are not yet prevalent, and commonplace software development tools which aid in the development of software prototypes.)



- o INPUT did uncover, however, several consultant initiatives to use software tools to be more productive:
 - EDS uses "Strategic Planner" to help the consulting team consider all options. Strategic Planner will eventually be sold externally, though a price has not been set at this time.
 - A few McKinsey consultants use object-oriented programming tools to quickly create IT prototypes, though the use of such tools does not appear to be expressly endorsed by McKinsey.
 - EDS is investing in work-flow software to facilitate the redesign of business processes
 - Andersen is creating "Knowledge Exchange" to help ensure that the right consultant among its 4,000 BPR consultants is considered for each engagement. In theory, Knowledge Exchange sounds worthwhile, but in INPUT's experience consultant selection is determined mainly by partner profit considerations and whether the partner has worked with a consultant before.
- o All of the firms have a worldwide focus, though staffing is generally from local nationals. However, during the benchmarking phase of BPR, INPUT has learned that the consultants go beyond national borders to expose the best practices wherever they may be found (assuming the client's budget permits the expense).
- o Except for Perot Systems, the firms are increasingly promoting themselves--subtly in keeping with their desired professional image, but aggressively by historic standards.
 - Andersen and CSC Index initiate multi-client studies and then publish the results. Presumably, clients must retain the consultant to effectively apply the study's results to their situation.



- CSC publishes case studies, actively cooperates with the press, and has recently renamed its quarterly journal "Insights Quarterly: An Executive Journal of Business Re-engineering." And CSC Index's chairman's best selling book, "Re-engineering the Corporation" co-authored with Michael Hammer may be the best marketing tool of all.
- CSC is also sponsoring "CSC Index Management Conferences²" for \$25,000 per year for company presidents and staff. Big name speakers include Porter and Drucker.
- Like CSC, McKinsey has studied the success and disappointments of previous BPR efforts. The results will be published this fall in the Harvard Business Review (an interview on the same subject was supplied to Nomura on August 27, *Business Technology*). It will be indirectly critical of previous (Andersen and CSC Index) BPR results. HBR articles are typical of McKinsey's high-brow marketing approach.
- Bain also prefers that its partners appear in high-brow publications. Bain partners have appeared in HBR and Britain's *Management Today*.
- o The consulting firms use similar methods to reach agreement with the client about the consulting work to be performed and the fees to be paid to the consultant.
- McKinsey and Bain rely mainly on their reputations and corporate contacts to persuade prospects to accept their letters of engagement. They also emphasize what BPR can accomplish if done correctly. The engagement letter describes what results are expected generally within six months. Bain also uses its data base to demonstrate its competence.
- CSC and EDS rely more upon presentations and descriptions of prior accomplishments ranging from BPR to SI projects in order

² Called the CSC Exchange



to justify their fees. They too concentrate on selling an initial work step that can produce measurable results and be completed within about six months. EDS has also taken steps to develop capabilities such as the Strategic Planner and best-practices data bases that enhance their image as able strategy consultants.

- Andersen Consulting, through its prior engagements and assets such as "Knowledge Exchange," has created an image as a successful BPR consulting firm. Its client presentations highlight what has been achieved for other clients and what could be accomplished for new clients--in short, it takes an intangible concept and makes it seem very tangible. It justifies its fees in terms of the benefit the client will receive. Andersen Consulting also focuses on defining a first step that produces results quickly, generally within 6-to-9 months.



III. BPR Consultant Profiles

Summary profiles of the seven BPR consultants is shown in Exhibit III-1. Each profile is organized as follows:

- o Profile
- o Revenue
- o BPR Organization
- o BPR Methodology and Tool Software
- o Business Development and Marketing
- o Differentiation.



BPR Consulting Firms Summary Profiles—Exhibit III-1
(see attached)



A. Andersen Consulting

Profile

- o Andersen is the preeminent provider of BPR consulting services in terms of:
 - Number of consultants trained in Andersen's consulting methodology, called Value-Driven Reengineering(sm)
 - Breadth of its services, from front-end strategy consulting to process re-design, IT development and change management.
- o Andersen operates in 46 countries, and covers virtually every major industry.

Revenue

- o Total BPR revenue in 1993 is \$700 million, including \$105 million in strategic consulting services.
- o Despite Andersen Consulting's large size, it is growing at 20% annually in 1992 (28% CAGR over the past five years)--faster than the overall market for consulting services. While INPUT has no data to indicate what percentage of this increase is due to strategy consulting, the strong overall revenue growth rate suggests that the Andersen model is working, and strategy-lead BPR projects are helping to create a steady supply of SI work.

BPR Organization

- o BPR is not a practice area, but rather a consulting skill. Partners in each practice area, such as retailing or banking, have been given targets to ensure that the staff is trained in BPR. Out of 23,000 professionals, about 4,000 have been trained in Andersen's methodology. Adherence to methodology is part of the Andersen culture and the basis for disparaging comments by competitors that the rigor of the "Andersen Way" stifles creativity.



BPR Methodology and Tool Software

- o Value-Driven Reengineering consists of three phases:
 - Phase One-Enable Change. Formulate a shared vision for the business, including new business processes, people skills, organizational structure, technology, and infrastructure requirements.
 - Phase Two-Achieve Change. Implement the planned change including the design and pilot test of new processes.
 - Phase Three-Sustain Change. Monitor performance versus plan to ensure change is complete and achieves the expected result.
- o Andersen does not have a best-practices data base and relies on its partners and associates to be the repositories of best practices in their respective industries. There are no plans to create such data bases.
- o Software re-engineering tools do not yet play a major role in Andersen Consulting's BPR consulting. Andersen is creating "Knowledge Exchange" to help ensure that the right consultant among its 4,000 BPR consultants is considered for each engagement. In theory, Knowledge Exchange sounds worthwhile, but in INPUT's experience consultant selection is determined mainly by partner profit considerations and whether the partner has worked with a consultant before.

Business Development and Marketing

- o Andersen promotion material was provided to Nomura with the interim report. A recent client presentation on BPR is attached.
- o Andersen uses an engagement letter, as do all the management consultants. Expected results in terms of reduced costs, improved quality, increased sales/margins, or shorter cycle time are typically



quantified. Achieving the expected results early, within 6-to-9 months, is key to gaining client authorization to proceed with subsequent steps.

- o Unlike EDS, Andersen does not engage in "level of service" agreements that specify a fee for a particular result.
- o Andersen has effectively leveraged client interest in its process re-engineering and IT skills into front-end strategy consulting, previously the exclusive domain of Bain & Company, Boston Consulting Group, Booz-Allen & Hamilton, and McKinsey & Company. INPUT believes that Andersen will continue to make gains in delivering strategy consulting services, except for the most complex and sensitive strategy work such as acquisition, divestitures, plant closures, and discontinuing whole product lines.

Differentiation

- o Andersen is bolstering its front-end strategy consulting and back-end Change Management Services (sm) consulting practice using internal resources rather than partner with other consulting firms more experienced in these areas. While Andersen has extensive partnering arrangements³ with technology firms such as Microsoft, Novell, Sun, Sybase and Tandem, no major partnering arrangements with other consultants have been uncovered.
- o Andersen has been active in establishing benchmarks through cross-industry studies sometimes sanctioned by industry groups such as the Grocery Manufacturers Association. Examples of the kind of data that is collected include days of inventory, inventory turns, transaction error rates, and the like. To INPUT's knowledge, Andersen has not converted benchmarking data collected this way into best practices data bases. While the benefits of such a data base

³ Andersen's Business Integration Partnership program establishes and manages alliances with computer, information services, and software companies. The objective is to lower the cost of technology acquisition and ensure that its staff members can assimilate new technology into specific client projects. These relationships may span years or sometimes only a single project.



would seem obvious, INPUT believes that the partnership culture may interfere with investments such as data bases where individual partners would authorize staff time for the good of the whole partnership. While Andersen partners obviously makes similar kinds of investments in, say, training (INPUT estimate: \$7,200 per year per associate), the payoff in training is more clear cut.

- o Some Andersen staff questioned the practical advantages of benchmarking, citing inconsistent reporting of data, incomparable data gleaned from different industries, and declining cooperation among firms that truly lead in their respective industries.
- o Andersen is heavily investing in client/server training, with 12,000 consultants expected to be trained by December 1993. Andersen estimates that 75 percent of its IT work today is client/server related. This gives Andersen a considerable IT implementation advantage. The Andersen IT consultants become involved in the BPR project after process re-design. In fact, it is common practice in Andersen and most consulting firms to cycle people with different skills in and out of the project as needs change. The partner-in-charge is responsible for continuity, and maintains a single point-of-contact for the client.



B. Bain & Company

Profile

- o Bain & Company is an international management consulting firm. It operates in about 13 countries.
- o Unlike Andersen, Bain did not set out to specialize in BPR consulting. Rather, it found marketing advantage by re-labeling the "strategy consulting" it always provided as "re-engineering."
- o Bain's forte is cost and economic analysis, customer retention measurement and improvement, and mergers and acquisitions. These skills have been effectively applied to re-engineering engagements that require a dispassionate analysis to pinpoint where the economic value is created--a critical step in most re-engineering engagements.

Revenue

- o Total firm revenue in 1993 is \$250 million of which INPUT estimates \$25 million is in BPR strategic consulting services and change management services.

BPR Organization

- o BPR is not a practice area, but rather a consulting skill.
- o Bain would not disclose its industry specialization, but a review of its published work suggests that there are 20 industries, including:
 - Automotive
 - Consumer banking
 - Health insurance
 - Pharmaceuticals
 - Retail brokerage
 - Commercial banking
 - Health care
 - Merchant banking
 - Property & casualty insurance
 - Specialty retail.



BPR Methodology and Tool Software

- o Bain labels it BPR work "process re-engineering" which consists of these three major components:
 - Phase One-Identify Where Value Is Created. Quantify the economics of each interaction between customer and client. Bain copyrighted a slogan--"Customer Corridor"--to communicate the concept.
 - Phase Two-Achieve Change. Break functional hierarchies into cross-functional (horizontal) teams. Use new technology to improve dissemination of information and push down decision making to the lowest level possible. Create new value system, with greater emphasis on the customer.
 - Phase Three-Sustain Change. Monitor change versus plan.
- o Bain's best practices data base, called customer retention, is highly specialized and perhaps the most refined among the consultants INPUT interviewed. The data base is an accumulation of years of customer retention economic data from a variety of industries and sources. Should Bain decide to broaden the scope of its data base, it has the skills and required experience.
- o Software re-engineering tools do not yet play a major role in Bain's BPR consulting. There is no indication this will change anytime soon.

Business Development and Marketing

- o Bain promotion material and articles were provided to Nomura with the interim report.
- o Bain tracks the financial performance of its publicly held clients and reports the results as evidence of Bain's effect on client companies.
- o Bain uses engagement letters and will not commit to a specific result, though it is results oriented.



- It is averse to level of service agreements because strategy work doesn't always lend itself to such agreements
- Level of service agreements also pose a potential conflict of interest according to Bain--for example, earning a fee rather than doing what is in the best interest of the client.

Differentiation

- o Years ago, Bain committed to its clients not to work for any competitors for some period of time--in effect, a client bought exclusivity in an industry. Today, such commitments can still be made, though with conditions. INPUT surmises that such conditions would include some kind of ongoing retainer or minimum level of consulting services annually. No other consulting firm does this to INPUT's knowledge, with or without conditions. Bain's relatively small size makes this possible.
- o In INPUT's judgment, Bain is the most analytic among a field of analytic BPR consulting firms. By analytic INPUT means every meaningful client activity is quantified whereas other consulting firms might deal with the same set of facts anecdotally. According to Bain, for example, it can show the economics of retaining a customer for 10 versus 5 years in a banking example; another BPR firm might deal with the same issue by summarily stating that retaining a retail customer longer is a desirable business objective.
- o Bain does not participate in any way in the IT part of BPR. McKinsey has experimented with object oriented programming to create working prototype, but Bain does not perform even that basic level of IT work. Bain's BPR work stops at the completion of process redesign, though it stays involved through project management.
- o Unlike Andersen, Bain does not perform multi-client work. It uses client and volunteered non-client data to feed its customer retention data base.



C. CSC Index

Profile

- o CSC Index is the management and technical consulting arm of CSC Corporation, a Fortune Services 50 company and a major systems integrator to the federal government. Its chairman and CEO was recently named an officer of the company based, in large part, on the strength of the company's BPR work.
- o CSC Index is similar to Andersen Consulting, only much smaller (250 consultants dedicated to strategy and process redesign engagements). Direct comparisons with Andersen and EDS can be misleading because CSC Partners is a separate CSC division, and the IT implementation functions that CSC Partners perform are counted separately. Consequently, Andersen and EDS headcount and revenue have to be compared carefully.
- o CSC Index also operates worldwide, though it has a North America focus. Its specialty is "large-scale BPR" consulting projects that require a collaborative effort⁴ with the client. There is no generally accepted standard of large or small consulting engagements. For BPR work, INPUT defines any project that bills over \$50,000 per month in professional fees as large scale.

Revenue

- o Total BPR revenue in 1993 is \$45 million in strategic consulting services and change management services. CSC Partners contributes about \$70 million in BPR-related SI.

⁴ Virtually every successful BPR engagement today is collaborative with the client, especially during the creation of the business strategy and re-design of the business processes. Before BPR, consultants often devised strategy independently, with little interaction with the client; after BPR, client involvement is now commonplace.



BPR Organization

- o BPR is claimed to be a practice area within CSC Index, but in reality it's a functional skill all CSC Index consultants are expected to possess. Organizational change and IT are the other two internal practice areas. Of all the firms interviewed, CSC could call itself "The Re-engineering Firm" because the firm's work is largely re-engineering related.

BPR Methodology and Tool Software

- o While there are no best-practices data bases, CSC Index conducts frequent surveys and multi-client studies to obtain primary market and economic data normally associated with a best-practices data base. On occasion, these one-time studies become ongoing research programs that serve to publicize the firm's skills. There are four such ongoing research areas today:

- Prism in IT
- Alliance in field sales automation
- Beacon in change management
- Quantum in re-engineering.

No other information on these research areas is available at this time.

- o Software re-engineering tools do not yet play a major role in CSC Index' BPR consulting.

Business Development and Marketing

- o INPUT has obtained the CSC annual report, an article from a CSC Vice President on BPR methodology, CSC survey of IT issues for 1993 as well as a recent CSC Partners' client presentation on BPR and client/server.



- o CSC publishes case studies, actively cooperates with the press, and has recently renamed its quarterly journal "Insights Quarterly: An Executive Journal of Business Re-engineering." And CSC Index's chairman's best selling book, "Re-engineering the Corporation" co-authored with Michael Hammer may be the best marketing tool of all.
- o CSC is also sponsoring "CSC Index Management Conferences" for \$25,000 per year for company presidents and staff. Big name speakers include Porter and Drucker.

Differentiation

- o CSC Index has been most associated with many of the earliest BPR engagements, meaning clients often think of CSC Index first when considering BPR.
- o In INPUT's judgment, CSC has won the BPR "press relations sweepstakes" because the above successes have been extensively covered by the business press. CSC Index has been the most effective marketer of BPR consulting services. It has used a variety of marketing tactics, including a controlled circulation magazine, partners accessible to the business press, case studies, Champy's book, surveys (1993 sample attached), and for-fee executive seminars (CSC Exchange at \$25,000 per year). These tactics are not generally used by McKinsey and Bain, and that is why INPUT believes such tactics have been effective.
- o CSC Index has demonstrated industry leadership by incessantly reciting the quantifiable benefits of BPR, such as 50 percent cost reduction, 70 percent quality improvement, and 80 percent time reduction, with more than half the gain achieved within one year.



D. EDS Consulting

Profile

- o EDS is renowned for IT, systems integration (SI), and outsourcing work in government and industry. Its BPR strategy work is a logical extension of its strength in IT.
- o EDS is following the Andersen model of "win the front-end strategy work, and the larger SI work will follow."

Revenue

- o Total BPR revenue in 1993 is \$90 million in strategic consulting services and change management services. EDS Systems Integration adds about \$400 million in BPR-related work (versus total SI revenue of \$860 million in 1992).
- o EDS speculates that its revenue gain came mostly at the expense of big-six accounting firms' management consulting units.
- o According to EDS, about 75 percent of EDS Consulting engagements in progress are BPR related.
- o EDS derives about 50% of its revenue from GM, mainly for designing, installing and operating GM information systems and for operating GM's corporate digital network (EDS*NET). Non-GM revenue rose 31% in 1992. National Car Rental, a GM investment and 10-year EDS contract, has been an EDS BPR success story. EDS implemented ATM technology to speed up the rental and car return process for Emerald Club members--National's highest-volume customers--at 220 airport locations.

BPR Organization

- o BPR is a functional skill; not a practice area.



- o EDS Consulting is headed by a Group Executive, a title normally reserved for business units \$1 billion and greater.
- o EDS is establishing its business strategy and process re-engineering consulting practice by recruiting extensively from McKinsey, Booz-Allen, and the "Big-6" accounting firms.

BPR Methodology and Tool Software

- o The EDS BPR methodology is depicted in a client presentation that INPUT has obtained (see Exhibit III-2).
- o EDS is now or will become the leader of best-practices data bases. It is creating internal best-practices data bases and is gaining rights to external best-practices data bases.
 - Internally, the data bases are called "Repositories of Best Practices." INPUT has identifies two specific best-practices data bases: one is for automotive (Detroit) and the other is for aerospace (St. Louis, Mo.).
 - Externally, EDS has negotiated the right to access four commercial and one government best-practices data bases.
 - oo American Productivity and Quality Center, Houston
 - oo National Center for Manufacturing Practices (NCMP), Ann Arbor, Mi.
 - oo Iacocca Institute, Lehigh University, Pa.
 - oo Inter-Matrix, Chicago
 - oo Navy, Pentagon.
 - EDS actively takes advantage of its GM parent relationship, using the GM name to open doors, inquire about best practices, and gain the cooperation of best-practice companies. EDS



EDS BPR Methodology—Exhibit III-2
(see attached)



indicated that a search for best practices has declined into "best available." (CSC also noted a decline in cooperation, citing "over grazing.") Nevertheless, EDS's ties to GM helps it to gain the cooperation of best-practice companies that have become numb from all the attention brought about by BPR (GM's Saturn division charges for corporate tours).

- o Software re-engineering tools are used by EDS, though their role is limited.
 - EDS uses "Strategic Planner" to help the consulting team consider all options. Strategic Planner will eventually be sold externally, though a price has not been set at this time.
 - EDS is investing in work-flow software to facilitate the redesign of business processes.

Business Development and Marketing

- o INPUT has obtained the EDS annual report, sample client presentation (previously supplied to Nomura), and a recent presentation to INPUT clients on BPR and client/server.
- o While not perceived today as business strategists, EDS's goal is to change market perceptions and earn more of its revenue from strategy and process redesign engagements, thus following the Andersen business development model.
- o EDS's motivation to move into strategy consulting and process redesign was to influence the IT specification historically set by other consultants, and thereby take greater control over its future direction and growth. Not surprisingly, EDS cites examples of bungled projects because of mis-specification by other consultants inexperienced with IT implementation. EDS uses this fact to create fear in client's minds about going with non-IT consultants.
- o EDS has a mission to fundamentally change clients' mindset from "IT is a burdensome cost" to "IT is a core technology, capable of being a



EDS BPR Methodology—Exhibit III-2
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- o EDS has a mission to fundamentally change clients' mindset from "IT is a burdensome cost" to "IT is a core technology, capable of being a



strategic weapon." To do this, EDS principals call on CEOs, COOs, and division general managers. EDS's work for GM and Hughes, a unit of GM, carries credibility especially among manufacturing clients.

- o EDS Consulting has a separate sales force, unlike the management consultants whose partners both sell and deliver consulting services.

Differentiation

- o EDS differs fundamentally from its competitors, especially from the traditional management consultants. EDS's view is that IT strategy drives the rest of the client's business versus the traditional view that business strategy drives IT. It has contracted with Professor Arnoldo Hax of MIT Sloan School to develop this theory.
- o EDS has an alliance with Hammer & Company.
 - Hammer was courted by McKinsey and Ernst & Young, but Hammer choose an alliance with EDS. The alliance means simply that Hammer is "on call" to respond to requests by EDS clients for one-day, private presentations to "evangelize the client." EDS calls in Hammer when it senses that the client is losing commitment or needs a confidence boost--precisely the problems Hammer handles ably based on personal observation by INPUT staff.
 - Hammer dropped a similar relationship it had with CSC Index, according to EDS. INPUT has no clear evidence what went wrong beyond what EDS suggested--that Hammer was simply looking to stay in front, and he saw the future in the kinds of services EDS is offering. INPUT believes this explanation is not the full story.
 - EDS indicated that the future EDS/Hammer alliance will go beyond this simple relationship. It would not discuss details at this time. Perhaps an acquisition of Hammer by EDS, but it is not clear how much this would benefit EDS. Perhaps Hammer wants to become involved with implementation, not just



education, and EDS is one of the best at implementing. Or perhaps Hammer is tired and simply wants to "cash out."

- o EDS has made one investment in a Dallas-based consulting firm, the Thomas Group, which specializes in 100 percent contracting-for-value agreements. No other information is available on the Thomas Group.
- o EDS indicated that it plans to migrate to more contracting-for-value agreements.
 - Contracting-for-value agreements are about 5 percent of EDS's BPR business versus zero for the competition.
 - EDS is experienced with such agreements, citing its commercial and government SI business, e.g., the Chicago parking meter collection effort being one notable success. EDS shared in Chicago's 50 percent revenue gain, from \$40 million to \$60 million collected annually. Assuming EDS grossed 25 percent of the gain, then its revenue in 1992 would have been \$5 million; assuming 10 percent of the gain, then revenue would have been \$2 million. INPUT confirmed that the Chicago project was based on contracting-for-value, though the exact sharing formula is not known.
 - EDS may have entered into a similar type agreement with Massachusetts. INPUT believes this is possible because the savings were quantified--reportedly \$13 million less cost annually to administer Medicare benefits.
 - Traditional management consultants bristle at the thought of "contracting for value," but INPUT expects these kind of contracts to increase as new clients, lacking direct experience with McKinsey et al., consider how to benefit from BPR at the least cost and risk.



- There are at least three ways EDS can be paid under a contract-for-value engagement:

- oo EDS's profit is at risk, but indirect and direct costs are paid by the client regardless of results
- oo EDS's profit and some of the indirect costs, such as allocated overhead, are at risk, but direct costs such as staff time, hardware and software are paid by the client regardless
- oo All of the revenue is at risk.

Which arrangement makes sense depends on the project, risks and outcome of client negotiation.



E. Hammer and Co.

Profile and Revenue

- o Hammer and Company is, for all practical purposes, Dr. Michael Hammer, the "BPR evangelist." Dr. Hammer has a small office staff, mainly to manage direct mail marketing, plan future conferences, and coordinate the speakers.
- o To date, Dr. Hammer has been content conducting three-day seminars or "workshops" (\$3-to-4 million revenue estimate) and one-on-one executive briefings for a \$10,000+ fee (60 to 70 per year). Even before BPR became popular, his BPR seminars were sell outs.
- o Hammer does no BPR consulting per se, leaving that work to CSC Index, Andersen Consulting and others.
- o Hammer source material was provided to Nomura during the interim briefing.



F. McKinsey & Co.

Profile

- o McKinsey is the renowned management consulting firm, long favored by CEOs of the Fortune 500 to re-think business strategy, analyze acquisitions and divestitures, and revamp distribution.
- o Like Perot Systems, McKinsey is highly secretive and recently instructed its staff not to cooperate with the Wall Street Journal concerning a forthcoming article (attached) about the firm.

Revenue

- o Total BPR revenue in 1993 is \$75 million in strategic consulting services and change management services. There is no McKinsey revenue from SI, though INPUT estimates that other SI firms will gain about \$250 million in 1993 as a by-product of McKinsey's front-end strategy work. That amount represents a significant business opportunity should a SI firm successfully align itself with McKinsey.

BPR Organization

- o BPR is a functional skill every McKinsey consultant is expected to possess; it is not a practice area.
- o Like Andersen, McKinsey is organized mainly around industry practice areas (virtually every major industry is covered) and a few functional areas such as:
 - Investment Banking
 - Retail Banking
 - Casualty Insurance
 - Consumer Package Goods
 - Retail Apparel
 - Energy
 - Electronics.
 - Commercial Banking
 - Property Insurance
 - Life Insurance
 - Grocery
 - Transportation
 - Manufacturing



BPR Methodology and Tool Software

- o McKinsey calls its BPR work "Core Process Redesign." It consists of four elements:
 - Phase 1--Direction Setting. Analyze both marketplace and organization, reach common vision, identify actions required to make the vision a reality, and examine best practices of other companies for ideas. Identify 2-to-3 things the company must do to win in the marketplace. Identify the high-level performance gaps between what is and what needs to be.
 - Phase II--Process Design. Includes Core Process Redesign (CPR). Create a change organization, quantify performance objectives, map objectives to organization units, and design performance-improvement approaches. Re-design core processes based on what organizational structure makes sense independent of the way things are today.
 - Phase III--Performance Improvement. What infrastructure is needed to implement, including (client-initiated) training, performance measures, employee communication, systems development, and pilot and test.
 - Phase IV--Realignment. Make necessary changes in structure, systems and staff.
- o McKinsey cooperated with INPUT to discuss its BPR philosophy.
 - Clients have at most 4-to-5 core processes that truly impact the performance of the client's company
 - Most BPR efforts to date have focuses on the *wrong processes*, resulting in sub-optimal results. McKinsey cited the well-known Ford invoice and IBM leasing case studies as examples of sub-optimal results because overall corporate performance was not helped.



- McKinsey views IT strategy as following business strategy, opposite the EDS and Andersen philosophy.
- IT design and implementation is best left to the client and the experts the client selects; McKinsey has no preferred IT alliance or relationships with other consultants.
- A few years ago, McKinsey did acquire an IT consulting firm (though it does not call it an acquisition because "McKinsey does not make acquisitions") to fill a gap in its expertise. Information Consulting Group (ICG) was a failure and few of the original staff remain. Culture clash was a large part of the failure, and that bad experience will weigh on any decision to try again. INPUT has no information to suggest that McKinsey will build or acquire an IT capability.
- o Software re-engineering tools do not play a major role in McKinsey's BPR consulting.

Business Development and Marketing

- o INPUT has obtained an interview of a McKinsey principal on BPR and BPR methodology (in interim report).
- o Unlike Bain, McKinsey will work for two competitors within an industry at the same time. The firm constructs a "Chinese Wall" between the two consulting teams, and notifies the clients about the conflict and what it has done to protect the client's interest. It has proved effective.
- o McKinsey uses engagement letters to proceed. The letters generally outline the scope of work, and the number of associates to be applied. Fees generally run \$50,000 to \$100,000 and more per month. Typical duration is 3-to-6 months, and BPR work can last longer.



- o Level of service contracts are not considered. The reason cited is professional integrity and potential conflicts of interest--earning the fee rather than offering impartial advice.
- o According to McKinsey, it is motivated to maintain its reputation with the client and within an industry, and that is what "protects the client" and thus ensures good results. Few firms would be believable with such a statement, but from McKinsey, it is.

Differentiation

- o INPUT believes that McKinsey will continue to succeed, but the lack of IT expertise will shut out an increasing share of consulting business--more business outside its grasp than McKinsey has ever experienced. The evidence is the extraordinary growth of Andersen Consulting, CSC Index, and EDS (non-GM).
 - McKinsey's view of itself is that IT expertise is something required of technicians, not professional management consultants--though this internal view is not universally held within McKinsey.
 - In contrast, Booz, Allen also held this same view in the mid-1980s, but it adapted by hiring more associates with IT skills and recently elevated the head of its IT practice to chairman and head of its technology practice to president. Those kind of appointments would be heretical to McKinsey.



G. Perot Systems

Profile

- o Perot Systems is secretive and, in that sense, is more like McKinsey than Andersen and EDS, its two main competitors.
- o Perot Systems focuses on large commercial SI work in the U.S. and Europe. It has offices in the U.S., Europe and Japan. It has been successful converting large SI projects into systems operations agreements (facilities management). Vertical markets include banking, insurance and manufacturing.

Revenue

- o Total BPR revenue in 1993 is less than \$10 million mainly because Perot Systems does not materially provide strategic consulting services or change management services. Its total SI business is about \$60 million out of \$200 million revenue total in 1992.

BPR Organization

- o No BPR organization or skill set was identified by INPUT.

BPR Methodology and Tool Software

- o Perot Systems claimed to provide BPR services because it wanted INPUT to "check the box" and to ensure that it is considered for any referrals. However, INPUT's judgment is that Perot Systems does not provide BPR consulting services in any way approaching the other firms profiled here. In that sense, Perot Systems is like the vast majority of SI firms that lack front-end consulting capabilities.
- o Perot Systems will consult with clients on IT system design and specification, in order to win the follow on SI work. There is no consulting group to the best of INPUT's knowledge, with a charter similar to EDS Consulting.



Business Development and Marketing

- o As a privately held company, no financial information is available. No information turned up about Perot and BPR during INPUT's literature search. Perot systems could offer INPUT no relevant promotion material on BPR.
- o Perot System's private nature would make it hard for prospective clients to even be aware that Perot Systems provided BPR consulting.

Differentiation

- o In INPUT's judgment, Perot Systems' growth will be constrained because it does not provide BPR consulting services.
 - Andersen, CSC and EDS will gain at Perot System's expense.
 - The effect may be that Perot concentrates on the back-end of SI--large SI work not involving BPR and facilities management of mature information systems not planned for immediate BPR review.
- o To INPUT's knowledge, Perot Systems does not enter into fee-at-risk contracts, though its entrepreneurial culture suggests that they would consider such an agreement if proposed by the client. Unlike EDS, however, Perot Systems is unlikely to initiate such contracts.



I V Other BPR Consultants

During the course of the interviews, the names of competitors came up. The firms most frequently mentioned were:

Coopers & Lybrand
 DEC
 Deloitte and Touche
 Ernst & Young
 Gemini Consulting
 IBM
 Price Waterhouse

INPUT also uncover some BPR specialists, that provide some aspect of BPR consulting services:

D. Appleton & Co.	Specializes in applying a structured approach to BPR in government. Some commercial work. Branded tools include PROBE (Principles and Rules of Business Engineering) and IDEFO for modeling processes. Manhattan Beach, CA.
Delta Consulting	Specializes in new corporate structures that involve autonomous work teams. Identified with turn-around at Xerox. New York, NY
Symmetrix Inc.	Founded by Bain & Company executives in 1986. A BPR "boutique" that specializes in insurance and manufacturing. Lexington, MA.



Appendices (Attachments to arrive via DHL)

Andersen Consulting

Brochure*

Business Integration...In Context Client Presentation

Reinventing the Business: Approaches and Issues Presentation

Bain & Company

Brochure*

Articles (7)*

CSC Index

Annual Report

BPR Article

Client Presentation on Client/Server Computing (BPR Driven)

Critical Issues of Information Systems Management Survey—1993

CSC Insights Quarterly BPR Article*

EDS Consulting

Annual Report

BPR Article

Client Presentation on BPR

Client/Server Computing (BPR Driven) Presentation

Critical Issues of Information Systems Management Survey—1993

Hammer & Company

Brochure*

Conference Agenda*

Harvard Business Review Reprint

McKinsey & Company

Articles about McKinsey and SI (2)

McKinsey Interview About BPR, *Business Technology**

Perot Systems

Other

Oxford Associates Survey of BPR Best Practices*

Consultant News Article Regarding BPR and Change Management*

Appleton Article and Brochure*

Aetna BPR Case Study Article*

* Original copy provided with interim report, August 27, 1993



REPORT FOR NOMURA RESEARCH INSTITUTE

I. REPORT CONTENTS

This report summarizes the objectives of NRI and presents the results of the research performed by INPUT. Section II, Report Objectives, contains an overview of objectives of the research, and Section III, Market Analysis, presents the results together with a brief summary of related findings.

II. REPORT OBJECTIVES

The report objectives are to provide best estimates of market information in regard to six segments of the brokerage market:

- Trading Systems
- Market Data
Pricing and News
- Analytics (Processing)
- Analytic Software Products
- Electronic Linkages
- Market Data Bases

Market information desired includes best estimates of revenues in 1992, 1988 and 1996; names and strengths of leading vendors in each segment; and the amount of penetration of the potential market in each segment. The amount of penetration should indicate how much more revenue might have been gained from each of the markets. One of the factors involved in penetration is growing awareness or demand for products, but as products mature or age, their possible replacement can add to the potential penetration by new products. Significant changes in products or services can also lead to opportunities to replace competitors, and these situations may not be reflected in the level of penetration in any specific year.



III. MARKET ANALYSIS

A. Information by Segment

1. Segment: Trading Systems

	<u>Annualized Revenue</u>		
	<u>1992</u>	<u>1988</u>	<u>1996</u>
Estimated Non Captive Revenues \$ million (Only software products are included; hardware and professional services would double the amounts shown.)	500	420	550
Percentage of Potential Market in 1992	60		
Leading Vendors	Strengths of Vendors		
Micrognosis	Understanding of trading function and knowledge of sources and problems involved in pricing; experience in implementing trading systems.		
Rich (Reuters)	Involved in trading and front office operations at a number of firms; experience with many workstation platforms.		
Comments	DEC, IBM, HP and DG (Sun is now active in the market as well) have also been active in installing these types of systems. They have greater depth in IT resources than the firms listed above. Users may become much more active in the future in selecting and integrating products for these types of systems.		



**2. Segment: Market Data ,
Pricing and Actionable News**

		<u>Annualized Revenue</u>		
Estimated Non Captive Revenues \$ million		<u>1992</u>	<u>1988</u>	<u>1996</u>
		1900	1700	2050
Percentage of Potential Market in 1992	70			
Leading Vendors	Strengths of Vendors			
Telerate	Fixed income markets, number of markets covered, range of data.			
Reuters	Global data; integration of data, news and applications; range of markets covered and Instinet capability			
Comments	Other vendors include Quotron, ADP (which states that it has two thirds of the quotation terminals in use) and Knight Ridder. A company with the capabilities of Micrognosis might become a competitive provider of market data (ticker plant) since it knows how data can be collected, the vendors who currently provide data and problems associated with various sources of data.			



3. Segment: Analytics (processing)

	<u>Annualized Revenue</u>		
Estimated Non Captive Revenues \$ million	<u>1992</u>	<u>1988</u>	<u>1996</u>
	420	350	500

Percentage of
Potential Market in 1992 50

Leading Vendors Strengths of Vendors

Sungard Past experience in market, relationships with institutions holding portfolios.

ADP Range of other services that are provided

Bloomberg Evaluation and what if capabilities.

Comments Quotron and the two largest data providers also provide analytic processing capabilities. Vendors do not always charge separately for all uses of these capabilities.



4. Segment: Analytics (Software)

	<u>Annualized Revenue</u>		
Estimated Non Captive Revenues \$ million	<u>1992</u>	<u>1988</u>	<u>1996</u>
	320	250	480

Percentage of
Potential Market in 1992 30

Leading Vendors Strengths of Vendors

Sungard Has a reputation for a range of software products to serve processing needs.

Reuters Reputation and contacts in trading functions.

Comments There are a number of other providers including Barra and Dow Jones Analytic Software. This market could grow rapidly as more workstation products are developed for smaller trading organizations and the individual investor. Several analytic products which run under Windows have been offered recently for those markets.



5. Segment: Electronic Linkage

	<u>Annualized Revenue</u>		
	<u>1992</u>	<u>1988</u>	<u>1996</u>
Estimated Non Captive Revenues \$ million (Much of the revenue is packaged with other services.)	50-110	40-100	60-120

Percentage of
Potential Market in 1992 65

Leading Vendors Strengths of Vendors

There are two types of vendors that clients think of as providers of electronic linkages: those who concentrate on providing market feeds and those who provide access to a set of market data. In addition to electronic linkage, the first type usually involves editing, cleaning up and packaging data.

ADP Combination of services for broker workstation including sources of market data.

Quotron Experience in delivering pricing data to a workstation.

Comments Electronic linkage is also supplied by Knight Ridder, S&P Comstock, PC Quotes and ILX.

Fidelity and Schwab also deliver linkages to market data through their workstation capabilities. These and other electronic linkage capabilities are delivered as part of a package of services. Contacts at several large brokerages pointed out that they could implement market feeds, but they want a package of services. ADP provides a package of information, processing, analytics, data feeds and brokerage workstations at an attractive price according to contacts at Merrill Lynch.

There could be a real opportunity to supply an economic service to investors and smaller dealer firms that provided data and analytics and was not connected to a brokerage firm as the Schwab (Equalizer) services are. That would lower the price and let the user choose the broker to contact for a trade.



**6. Segment: Market Data Bases
(General Market and Corporate Information)**

	<u>Annualized Revenue</u>		
	<u>1992</u>	<u>1988</u>	<u>1996</u>
Estimated Non Captive Revenues \$ million	320	280	380

Percentage of
Potential Market in 1992 35

Leading Vendors Strengths of Vendors

Interactive Data Wide range of quantitative data available. Interactive is used for many end of day evaluations.

Dialog Wide range of information sources.

Mead Large volume of general and corporate news.

ADP Markets a number of sources of information together with its workstation services.

Comments The president of one of these firms points out that it is difficult to decide what portion of revenue can be attributed to market support but felt that it was meaningful to separate this category of information use from market data and actionable news. He also felt that work should be done to define how this information is used.



B. Related Findings

The analysis of market data presented in this report relied upon contacts in the marketplace to aid in the classification of revenues and vendors. The comments of market contacts suggested that there are growing opportunities in the marketplace resulting chiefly from two factors:

- Developments in technology, particularly developments in workstations and communication.
- The desire of individual investors to have more tools and information made available to them for the purpose of evaluating investment alternatives, making decisions and initiating actions electronically.

One future opportunity could involve providing workstation capabilities for individual investors at their homes or places of business. This opportunity could require further developments in analytical software, possibly the development of expert systems that allowed investors to test their reasoning on investment decisions.

Another opportunity could involve combining services in new ways to meet market needs such as using the capabilities of a firm such as Micrognosis to package pricing data to meet the needs of groups of market participants.

During the course of this study, contacts noted that one of the factors to consider is the reluctance of some buyers to acquire market data or services from someone they regard as a real or potential competitor.



PROJECT WORK STATEMENT

TITLE Assessing BPR Methodologies

CLIENT ~~ABC~~ Nomura Research

CONTRACT: ATTACHED _____ TO FOLLOW _____ LETTER _____ VERBAL _____

PROJECT LEADER TR PROJECT CODE YN3

DATE STARTED _____ PLANNED COMPLETION DATE _____

LEVEL OF EFFORT (Professional Man Days) 17

TOTAL CONTRACT VALUE: \$ or £ 37,000

REVENUE DISTRIBUTION (% or \$) INPUT US 1 INPUT LTD 9,250

REIMBURSABLE EXPENSES: NO X 27,750

YES _____

EXP. BUDGET _____ TO COVER: TRAV: _____

TELE: _____

RPT. PREP.: _____

OTHER: _____

BILLING SCHEDULE DESCRIPTION KK to 6/4

PROJECT DESCRIPTION Interview 6 major
providers of BPR services to
understand business & practices

INDICATE TYPE OF WORK: REPORT X PRESENTATION _____

THANK YOU PACKAGE: YES X NO _____

ACCOUNTING USE ONLY: ENTERED ON CURRENT PROJECT LIST _____

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provided of BPR services to
understand business & practices

INDICATE TYPE OF WORK: REPORT X PRESENTATION _____
 THANK YOU PACKAGE: YES X NO _____

ACCOUNTING USE ONLY: ENTERED ON CURRENT PROJECT LIST _____



Week 4/23

Proj. Code: _____ Proj. Name: _____ Prepared by: 19
 Proj. Manager: _____ Date: 7/29/19 lev Page 1 of 1

